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DDI 03525X 88

SUBJECT:

## ROUTING AND RECORD SHEET

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FROM:

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Room 6P0150 NHB

EXTENSION

NO.

DT 03525X-88

DATE

4 November 1988

TO: (Officer designation, room number, and building)

DATE

OFFICER'S  
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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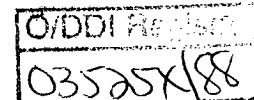
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For your signature

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4 NOV 1988

MEMORANDUM FOR: Director of Central Intelligence

FROM: Richard J. Kerr  
Deputy Director for Intelligence

SUBJECT: Comments on the INR "Estimate":  
Iran After the War

1. Action: No action required; per your request. (U)

2. We are in general agreement with most of the estimate's key judgments. Our differences with the INR paper are mainly over questions of degree and emphasis rather than fundamentals. We would note, for example, the paper's too optimistic tone about Iran's inexorable slide toward the West and more particularly toward cordial relations with the United States. Some other differences are important and worth noting:

- In our view the estimate does not adequately stress the challenges that Assembly Speaker Rafsanjani faces from radical opponents in the political leadership and the Revolutionary Guard in trying to secure his hold on power--particularly after Khomeini dies. A good example is the estimate's first key judgment, which stresses the survival of the "revolutionary Islamic Republic," and rightly dismisses the threat posed by exiled opposition groups, but omits the threat to stability posed by the deep and bitter differences among factions in the leadership.
- We also find to be too strong the estimate's judgment that support to Islamic groups worldwide has "greatly diminished" as an interest of the regime. Although we expect the current pragmatic trend in Iran's foreign policy to continue under Rafsanjani, and that Iran will curtail foreign acts of violence, we believe that the radicals retain considerable influence and will be able to gain



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concessions to their foreign policy goals. In particular we do not share the judgment that Iran is likely to reduce its commitment to Hizballah in Lebanon. [REDACTED]

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3. With respect to State's production of such estimates--we are surprised and more than a little bemused. In the interagency production of NIEs, SNIEs, etc., under the auspices of the NIO, State has historically refused to contribute, arguing that it does not have the resources, manpower, or time to do other than attend the coordination meetings. Their attendance is usually in the role of naysayer. Written contributions from State and State as principal drafter of an NIE are virtually unheard of. We are puzzled, therefore, that State, particularly at this time, was able to find the resources, manpower, and time to produce its own 19-page estimate on Iran--especially when they are well aware that a NIE on Iran already is underway. [REDACTED]

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[REDACTED]  
Richard J. Kerr

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SUBJECT: Comments on the INR "Estimate": Iran After the War

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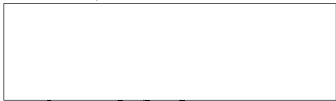
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MEMORANDUM FOR: DCI

FYI, I thought you'd be interested to know that INR has put out another paper that they call an "estimate." I was under the impression State Department officials had promised you they would no longer refer to any of their publications as estimates.

STAT

  
26 Oct. 1988

Date

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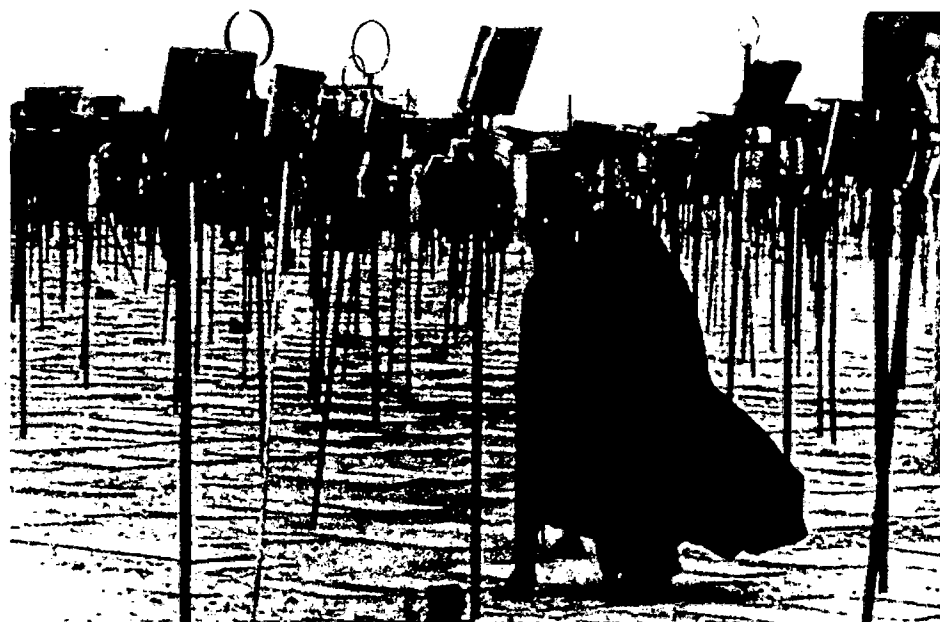


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**United States Department of State**  
*Bureau of Intelligence and Research*

**INR Estimate:**  
**Iran After the War**  
**September 1988**



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✓ L-249-1R  
X-ref: C-305F-1



**Cover Photo:** Iranian women walk through Behesht-e Zahra, Tehran's cemetery for martyrs of the revolution and the war with Iraq. Photos of the fallen are borne on masts above the flat tombstones. (Photo is OFFICIAL USE ONLY.)

**Warning Notice: Sensitive  
Sources and Methods Involved**

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Dissemination Control  
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# Iran After the War

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**Scope** *This INR Estimate looks at the political, economic, and military challenges Iran faces in the aftermath of its eight-year war with Iraq; it assumes that the cease-fire holds and the two sides continue to work toward a formal settlement. In view of Ayatollah Khomeini's advanced age and multiple health problems, the estimate in particular assesses Iran's prospects for stability following his death.*

- Key Judgments**
1. Iran as a "revolutionary Islamic Republic" is here to stay, even after Khomeini. Such exile groups as the Mojahedin-e Khalq and the pro-Shah factions have no chance of influencing events.
  2. Nonetheless, the exact shape of the regime is still to be molded. The war delayed some of the natural development of the revolution. One central undecided issue still under contention is the extent to which a centralized and socialist economy should be imposed.
  3. Majlis Speaker Rafsanjani takes a pragmatic approach on the issue of economic structure, trying to please the prosocialist majority in the Majlis without offending the bazaar class. Despite his association with an unsuccessful war and his many opponents, and barring assassination or natural death, Rafsanjani is likely to continue to dominate the political scene for the scope of this estimate.
  4. A key test of Rafsanjani's influence will come in the 1989 election for President (Khamenei cannot succeed himself) and the new President's selection of a Prime Minister (probably not the incumbent Musavi). No obvious candidates have emerged, although Khomeini's son Ahmad could be put forward for either post, particularly if his father has died.
  5. The religious nature of the government will diminish with the passing of Khomeini, in part because no grand ayatollah with his influence exists. Ayatollah Montazeri will provide some religious legitimacy to the regime.
  6. Export of revolution and fundamentalist Islam has greatly diminished as an interest of the regime. The current and probable future foreign policy

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direction is to broaden contacts with the West. The regime may justify improving relations with the US by pointing to the drawdown in US forces and the change in US administrations.

7. Tehran will keep its distance from Moscow, although there may be some expansion of economic coopera-

tion. Such pro-Soviet factions as the Tudeh party will remain marginal.

8. Were Rafsanjani removed, many of these trends could be reversed. No strong political or military leader is standing by to succeed him. Instability and coups d'etat would be the probable result for the near to mid-term.

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## Political Prospects

### Near-Term Prospects

In its decade in power, the leadership coalition in Tehran, headed by Majlis Speaker Rafsanjani and legitimized by the religio-political authority of Ayatollah Khomeini, has institutionalized its control. Even the collapse of Iran's war effort and the decision to accept UN Security Council Resolution 598 have not undermined Rafsanjani's dominance.

An indication of the strength of this coalition was its apparent solidarity in determining positions for Iran's UN negotiating team in New York during the efforts to obtain a cease-fire in early-August 1988. The Majlis Speaker, Prime Minister, and President managed to lay aside personal, institutional, and ideological differences to back the UN efforts. In doing so, they also kept a tight rein on hardline critics within Iran.

Although this augurs well for a relatively smooth transition period after Khomeini's death, the present stability depends largely on the authority of Khomeini. His death appears near, and with it will come an era of increasing uncertainty for Iran.

### Iran After Khomeini

Khomeini is now riddled with cancer and suffers from serious cardiovascular and kidney problems. But our information on his various ailments is inadequate to make a firm prediction of when he will die. Present thinking is in terms of months, not years.

**Evolution Rather Than Sudden Changes.** Iran will retain its present Islamic Republican form of government, as well as its current leaders, following Khomeini's death, although fissures and cracks long patched over by Khomeini himself may appear within a few months. Iranians are unwilling to experiment with an untried alternative despite the opposition of many to the present regime. The tumult of the revolutionary era has made them fearful of further change

and uncertainty. Trends suggest a gradual secularization of the government as the clerics play a decreasing role and as more technocrats enter the government, particularly to manage Iran's postwar reconstruction.

**No Role for the Mojahedin...** There appears to be little support within Iran for the Mojahedin-e Khalq, an exile organization now based in Iraq that calls for overthrowing the present order. The Iranian public perceives the Mojahedin as terrorists responsible for the assassinations of many top leaders of Iran in the early 1980s and fears their potential to foment disorder following Khomeini's death.

The Mojahedin are also seen as traitors for their armed invasions of Iran alongside Iraqi forces, especially in July 1988. The mauling of the Mojahedin "National Liberation Army" by Iranian Government forces in the first week of August weakens the group's potential, as does the probability that Iraq in complying with the terms of a peace settlement will have to restrain the Mojahedin from operating from Iraqi territory.

**...Or for Other Exile Groups.** A return to the Pahlavi monarchy, despite the nostalgia of many for the prerevolutionary days, has few advocates, in part because of the bloodshed such a development would bring. Monarchists abroad are hopelessly disunited, and the young shah shows little leadership potential.

Iran's outlawed communist Tudeh party and the Marxist Fedayan-i Khalq guerrilla group probably have little support. The Iranian regime appears unwilling to take any chances, however, and with an eye to the post-Khomeini period announced the executions of several Tudeh, Fedayan, and Mojahedin leaders in early August.

### Replacing Khomeini

**Irreplaceable.** There is no suitable replacement for Khomeini as Iran's supreme religio-political leader. No one can match his charismatic authority or his stature as the founder of Iran's Islamic revolution, and no

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**Ayatollah Khomeini's** charisma and stature as leader of the revolution has enabled him to balance Iran's disparate personal, institutional, and ideological factions. Now 87 and suffering from cancer and circulatory problems, Khomeini could die at any time. With no successor equalling him in stature, Iran's Islamic Republic will be severely tested by factional rifts as well as postwar challenges. (Photo is OFFICIAL USE ONLY.)

one can inherit his popular aura as a ruler with divine authority.

In the Iranian theocracy (the "viceregency of the jurist," *velayat-e faqih*), Khomeini is the supreme Islamic jurist (*faqih*) who rules as viceregent until the 12th Shi'ite imam, now in occultation, one day establishes a millennial realm on earth. The jurist speaks with the authority of divine law to resolve contentious government issues.

Iran's Constitution provides that Khomeini's successor must be a *faqih* who is recognized and accepted by a majority of the people as the leader of the age. He must be a "source of emulation" (*marji'-ye taqlid*)—a grand ayatollah recognized as qualified to make original decisions on divine law. If no one such person is recognized, then a leadership council of three or five "sources of emulation" is to be chosen.

A leadership council to succeed Khomeini is not feasible because the half-dozen or so Shi'ite sources

of emulation oppose the present regime and even the present concept of theocratic government. Only Montazeri, who was named a grand ayatollah by the current government but is not recognized as such by other grand ayatollahs (and probably not by their followers), supports the concept of *velayat-e faqih*.

**Montazeri, the "Deputy Leader."** Montazeri is thus the only viable successor to Khomeini. He was so designated in November 1985 by the Assembly of Experts, a body of some 70 theologians assigned to select the leader. The choice was by no means unanimous, however, which probably reflects doubts over Montazeri's leadership and jurisprudential qualifications.

Although he has had no real government role so far, Montazeri appears a weak alternative to Khomeini. Lacking charisma and broad popular support, he is expected to be largely a figurehead, filling the role of *faqih* to give the regime its necessary theocratic legitimacy.

**Ineffective...at Least for Now.** On several occasions in the past year Montazeri publicly opposed the present government leaders but each time failed to change policy to his liking. While these episodes suggest his inability to oppose Iran's current leaders on key issues, they also indicate a tenacious refusal to be silenced. It is possible, therefore, that he could attract a variety of opponents of the present regime.



**Grand Ayatollah Montazeri,** Khomeini's designated successor, is expected to play more of a spiritual role to give theocratic legitimacy to a regime that will most likely be headed by Rafsanjani. (Photo is OFFICIAL USE ONLY.)

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He appears already to be attracting conservative clerics who oppose trends toward economic nationalization and socialization.

Montazeri is an essential symbol for the transfer of power after Khomeini, but once that transfer is effected and a stable government ensues, Montazeri's role will become increasingly symbolic. Eventually, the concept of *velayat-e faqih* could even be eliminated. Many in Iran's religious establishment oppose the concept on religious grounds as heretical, while others oppose it as a potential basis for autocracy.

Nonetheless, Montazeri's indispensability to the regime as a source of theocratic legitimacy, at least in the near term after Khomeini dies, could mean his views will carry weight with Rafsanjani, the expected power broker of post-Khomeini Iran.

### The Expected Lineup

**Rafsanjani in Charge.** Hojjat ol-Eslam Ali Akbar Hashemi-Rafsanjani, Iran's most powerful political figure, is likely to remain the country's effective leader following Khomeini's death. As Speaker of the Majlis (parliament), he has the backing of most of Iran's lawmakers, and as Commander in Chief of the armed forces—a position formerly held by Khomeini—he would appear to have the necessary backing to assert his authority. Most of Iran's top leaders are loyal to him, either because of blood relationships or because they owe their positions and wealth to him.

Rafsanjani is a pragmatist and an opportunist rather than an Islamic revolutionary ideologue. Though he has his detractors, he has managed to keep the support of leaders of most factions and centers of power. He does this chiefly through his skill in achieving compromise between different groups on various issues, a talent exceeded only by Khomeini. Like Khomeini, he often manages to avoid strict identification with one side or another on contentious issues.

Rafsanjani has weathered several important storms over the past two years: the "Irangate" scandal, in which he was suspected of having made unauthorized contacts with the US; the military setbacks of June-July 1988, which took place while he was Commander in Chief; and the efforts to negotiate a war settlement according to UNSC Res. 598, which had



**Parliament Speaker Ali Akbar Hashemi-Rafsanjani** is the man most likely to lead Iran after Khomeini. A pragmatist, he depends on Khomeini's backing to achieve compromise among Iran's competing factions; his strength after Khomeini dies remains a question. He was the chief advocate of ending Iran's diplomatic isolation and of negotiating a settlement with Iraq. As armed forces Commander in Chief, he aims to slowly amalgamate the regular forces and the Revolutionary Guards—a process opposed by the Guards. (Photo is OFFICIAL USE ONLY.)

long been opposed by many of Iran's political and military leaders.

Rafsanjani would return Iran to a modernizing reform posture in some ways reminiscent of the Shah's. He would straddle the gap between the conservative faction that espouses free enterprise and the radicals who see need for some structural reform. In doing so, he would lead Iran toward reform in agriculture by modifying landholding patterns and would promote reconstruction in partnership with Iran's private sector and foreign firms. He would be likely to move to strengthen the bureaucracy and government organs at the expense of the clerics.

**But Can He Last?** Rafsanjani has numerous vulnerabilities. Like some of the other top leaders, he owes much of his power to his easy access to Khomeini, who has often supported him when he most needed it. For example, several Majlis deputies in

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November 1986 demanded an inquiry into the secret contacts with the US; Khomeini stepped in and decreed there was to be no such debate. Rafsanjani's ability to stand on his own without Khomeini remains an open question.

Rafsanjani, the compromiser, has opponents in most of the major factions. Whether the issue is economic legislation, land reform, international diplomacy, confrontation with the US, war strategy, or domestic security, he is seen by some as going too far, and by others as not going far enough. He has personal enemies and will be open to charges of corruption.

**Problems With the Guards.** Rafsanjani is vulnerable also in his new position as Commander in Chief: His plans eventually to consolidate the Army and Islamic Revolutionary Guard Corps (IRGC) will have to be handled deftly, or he will alienate members of both groups. There were rumors in June and July of assassination attempts by IRGC commanders.



**President Ali Khamenei**, a champion of the commercial and conservative cleric interests, has become increasingly allied with his former rival Rafsanjani against the radical factions. When Khamenei's presidency expires in 1989, he will be constitutionally barred from seeking a third term. He likely will retain political influence as Tehran's Friday prayer leader. (Photo is OFFICIAL USE ONLY.)

Whether true or not, the rumors reflect Rafsanjani's problems with the Guards.

Some guards fear eventual subordination to the traditional armed forces, while others may be angry about the apparent decline of IRGC Commander Rezaei. Still others may be disgruntled loyal followers of Mehdi Hashemi, who was executed apparently at Rafsanjani's instigation for plotting against the government. Hashemi directed many of Iran's extremist "export of the revolution" activities.

**The Triumvirate.** *Rafsanjani* is chief among three key leaders, each with his own institutional power base, who will retain power following Khomeini's death (assuming he dies in 1988). The future of the other two is less certain than Rafsanjani's, however.

President *Khamenei*, who often represents the interests of the more conservative clerics as well as the traditional armed forces, is a former rival to Rafsanjani who now appears allied with him out of common opposition to the more radical politicians. He was humiliated when Khomeini publicly rebuked him in January 1988 for ascribing legal restrictions to the powers of the theocracy. His second term ends in 1989 and he cannot be elected to a third term, though he could remain an important government voice if he retains his other post as Tehran's Friday prayer leader. At present, there is no identifiable likely successor for him as President.

Prime Minister *Musavi* was given a vote of confidence by the Majlis in June 1988, and with a Majlis now more sympathetic to his statist economic policies he can expect to remain comfortably in office until next year. The new President, scheduled to be elected in summer 1989, however, is constitutionally required to select his own Prime Minister; Musavi, who in the past has said he would like to step down, likely will then be replaced. Foreign Minister Velayati, now a Rafsanjani ally, is one possibility for the premiership; that development would further Iran's moderating trend.

**Khomeini's Son.** Ahmad Khomeini has increasingly wielded power in setting policy behind the scenes. We believe he is behind Iran's efforts to end its diplomatic isolation and to negotiate a settlement to the war. Ahmad's control of access to his father has made him a key figure, but since he has no formal

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**Prime Minister Musavi** is the most important of Iran's "radical" bloc. He advocates strong state controls over economic and social programs and has also been a hardliner on the war. Widely regarded as incompetent and often made a scapegoat for Iran's economic ills, Musavi will probably be replaced in 1989 after a new President is elected. (Photo is OFFICIAL USE ONLY.)

government position, he could lose all power when his father dies. However, Iran's dynastic heritage, Shi'ite veneration of the descendants of the early imams, and beliefs in the hereditary holiness of the leading clerical families mean that at least some of the popular reverence for Khomeini will transfer to his son. This could accord Ahmad an important role in post-Khomeini Iran.

### Prospects for Stability

**Preparing the Way.** In the past two years, to prepare for Khomeini's death, Rafsanjani, Ahmad Khomeini, Musavi, and other key leaders took steps to ensure a smooth transition by limiting factionalism within the government. Many of their efforts were directed toward eliminating the institutional power bases of their conservative opponents—those who reject increasing state intervention in domestic economic and social affairs.

By disbanding the Islamic Republican Party in 1987 and carefully controlling Majlis election cam-

paing, they ensured that most conservatives would lose in their bids for Majlis seats. Decrees issued in Khomeini's name (perhaps penned by Ahmad) served to undermine the conservative Council of Guardians (which traditionally blocked Majlis economic legislation) and to broaden government powers by decreeing that government legislation was obligatory on religious grounds. These decrees, however, will lose force once Khomeini has left the scene.

**Reemerging Opposition.** Factional rivalries are, however, becoming blatant once again. The chief issues of contention are the longstanding dispute over the government's role in distribution of land and wealth, control of foreign trade, taxation, and other economic matters. The Musavi government believes a centralized economy is essential and that careful government management will be necessary for postwar reconstruction. Conservative clerics—perhaps fearing for their large landholdings and independent sources of wealth—are allied with the bazaar merchants in becoming more outspoken in blaming Iran's current economic straits on government mismanagement. The government, in retaliation, blames bazaari hoarding and corruption.

In September 1988 Khomeini and Rafsanjani, apparently recognizing the need to regain the support of the merchants and the conservative clerics, reversed some of Musavi's key economic policies by announcing that the private sector would be relied upon in postwar reconstruction plans. The government would not, as Musavi had wanted, control imports exclusively, nor would foreign companies be banned from reconstruction projects.

### Disputed Diplomacy

**Hardliners Versus Diplomats.** Diplomats who hope to end Iran's isolation and to restore ties with Western nations, as well as to pursue negotiations at the UN on ending the war, are periodically denounced by hardliners, led by Interior Minister Mohtashami, who oppose such efforts as potentially diluting Iran's revolutionary vigor.

The diplomats have been clearly in the ascendancy, however, since spring 1988. The September 13 Majlis vote of confidence on the cabinet resulted in a resounding victory for Foreign Minister Velayati, in-

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dicating that Rafsanjani, with Khomeini's backing, had so far succeeded in marshaling support for the diplomatic efforts. Mohtashami barely passed the threshold of required votes, suggesting the hardliners may be retreating from international affairs and concentrating on the postwar economic agenda.

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### Export of the Revolution

A casualty of Iran's diplomatic image polishing, and perhaps economic exigencies, is the active export of the revolution, a phrase the Iranian Government now defines only as the inspiration that Iran's Islamic revolution offers to other Muslim peoples. Plotting to arouse native Shi'ite populations to overthrow the Gulf state ruling families, as Iran attempted in Bahrain and Kuwait, is likely to remain a thing of the past. Iran's annual effort to politicize the pilgrimage ceremonies in Mecca, which culminated in the bloodshed of July 1987 and led to condemnation by much of the Muslim world, is also likely to be deemphasized.

Such activities now interfere with Iran's political goal of rapprochement with the Gulf states. There is also the need to husband scarce resources for reconstruction and for achieving domestic social revolutionary goals long postponed by the war.

Iran may also become less actively involved in Lebanon, once its greatest hope for achieving an Islamic revolution beyond its own borders. It already appears to be reducing its level of support for Hizballah and is likely to draw down its Revolutionary Guard presence there. A desire to retain the support of Syria, the principal player in Lebanon, is Iran's strongest motive for meddling less there.

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**Moving Toward the US...** Normalization with the US, which Rafsanjani and his allies favor, remains highly controversial because of the persisting dogma that the US still wants to overturn the revolution. Those favoring improved relations are motivated by a desire to neutralize that perceived threat diplomatically, while the hardliners believe any such accommodation will eventually result in a restoration of the old order.

Even the basic first step of permitting an Iranian official to meet publicly with one from the US carries too much political risk for Rafsanjani to attempt. Unless such a step were clearly ordered in a public decree by Khomeini himself, a meeting with a US official would bring charges by hardliners that Rafsanjani was deserting the revolution.

Iranian public opinion must first be prepared carefully for the acceptance of ties with the US, and this is already gradually taking place. Deputy Foreign Minister Larjani, for example, stated in an interview in a Tehran daily in September that such ties could eventually be made if Iran saw "favorable signs" from the US.

Iranian leaders have often called for favorable signs that the Iranian public can accept as showing a lessening US "hostility" toward Iran. In specifying such steps they have repeatedly mentioned the return of frozen Iranian assets in the US and the lifting of US embargoes. The US condemnation of Iraq's use of chemical weapons has been received as such a sign.

Both the end of the war and the advent of a new US administration will strengthen Iranian advocates of resuming relations with the US. The decreasing US military presence in the Gulf following the cease-fire removes a primary impediment to improved ties. The prospect of a new administration, whether headed by Bush or Dukakis, enables Iranian leaders to tell their public that the slate can now be wiped clean: It was President Reagan, they will say, who was responsible for the troubled relationship.

Release of US hostages held by pro-Iranian groups in Lebanon will probably result from an improvement in ties: Rafsanjani and others in the Foreign Ministry have long regarded the hostages as an obstacle to Iran's objective of reversing its diplomatic isolation. Such releases depend, however, on the extent of influence Iran still has with the hostage holders: Relations with Hizballah have declined, for example, in the aftermath of Iran's war losses to Iraq. Iranian factional politics also play a crucial role here, as some leaders (Interior Minister Mohtashami and probably Musavi) appear to regard the hostages as useful for preventing Rafsanjani from moving too close to the West.

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Better ties with the US would open the way for the return of US technological expertise, which Iran is likely to strongly desire in the postwar era. Prospects for US companies will be good in some fields—computer and medical technologies, for example—but opportunities have already been lost in others: US construction engineering firms previously involved in Iran's power-generation industry will find tough competition from Japanese, South Korean, Chinese, Swiss, West German, and East European firms now involved in rebuilding Iran's power plants, and a similar situation will exist in the reconstruction of petrochemical facilities. Iran is also unlikely to be a big consumer of US defense industry products as it was under the Shah: Iran instead will seek a relationship with a diversity of suppliers from both West and East.

Another factor motivating Iran's resumption of relations with the US is its longstanding fear of its northern neighbor, the Soviet Union. Iran has experienced Soviet aggression in the past, and in addition has an underground communist party (the Tudeh) that could gain power after Khomeini.

**...But Standing Firm With Moscow.** Even if Iran reestablishes ties with the US, Tehran is more likely to continue on a "neither East nor West" course of neutrality between the two superpowers. Though there is a distinct minority within the present government that favors warmer ties with the USSR, most Iranians, both in and out of the government and clerical establishment, fear and oppose a closer relationship. The USSR's looming presence to the north, Iranian resentment of Moscow's role as weapons supplier to Iraq, and traditional Islamic opposition to communism are the primary reasons.

Iran's leaders indicate they will turn to the West, rather than the Soviets, for the expertise and perhaps capital investment that they need to rebuild the economy after the war. The Iranians recognize the value of playing a Soviet card against Baghdad but would be reluctant to grant Moscow favors in return.

The Soviets are concerned that Iran's gradual restoration of ties with the West will offer fewer opportunities in the postwar era than they previously anticipated. They expect new openings for US influence in Iran once the war is over. The Soviets' most im-

mediate objective is the reduction of Western navies in the Gulf; to this end they continue to suggest a UN naval force to patrol the Gulf, a development that would legitimize a level of Soviet naval presence.

To slow Western inroads, the USSR may have to cultivate Iran more aggressively. Moscow may resuscitate such old aid projects as oil processing, railroads, and industrial development, and perhaps offer limited military cooperation. The latter would risk a strong reaction from most Arab states.

In the short run, both sides want to continue to improve relations, and there are likely to be moderate increases in cooperation. The Soviets have sought to gain favor in Iran by supporting Iranian positions in the UN-sponsored peace negotiations. Iranian Deputy Foreign Minister Larjani, in response, publicly acknowledged recently that Moscow's "peacetime" line has shown some improvement.

Economic cooperation is picking up as well, though not on a major scale. Iran and the USSR have agreed to convene a long-postponed session of their joint economic commission, and two long-term projects have now come on line: Two of three pipelines associated with a complex oil supply-buyback agreement reached in October 1987 have been completed, and Iran signed a contract with the USSR to build merchant ships for a previously agreed-upon joint Caspian Sea shipping line.

#### **And If All Breaks Down**

**The Need for an Authority Figure.** Conventional wisdom is that Iranians need, and want, a father-like authority figure who will ruthlessly maintain order and contain all the centrifugal tendencies of Iranian society. Thus, Khomeini replaced the Shah, who replaced his even more ruthless father.

Rafsanjani at present appears to be the only leader able to achieve accommodation among Iran's competing factions, even though he lacks Khomeini's charisma.

**If Rafsanjani Were Assassinated...** There appears to be no one who could step into Rafsanjani's role if he should be assassinated, or if he and his coalition should fail to maintain order. Other top political

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Clerics confer outside Shrine of Fatima in Qom. The backbone of the Islamic Republic, the clerics are involved in all levels of government and serve to propagandize the regime's goals and policies throughout Iran. Their influence will wane somewhat, however, after Khomeini dies and as Iran turns increasingly to technocrats to manage postwar reconstruction. (Photo is OFFICIAL USE ONLY.)

leaders, such as Khamenei or Musavi, are too closely identified with institutional or ideological constituencies.

The military too, both regular forces and Revolutionary Guards, has no clear candidate who could step in and achieve control if Rafsanjani were to be assassinated. With a media policy that avoids giving credit to specific commanders for military victories, the regime has been careful to prevent the emergence of any military hero who could command a loyal following.

Assassination of Rafsanjani by disgruntled Revolutionary Guards is possible, but their lack of a clear leader (Commander Rezai lost much prestige after the 1988 defeats by Iraq) and their divided loyalties along regional and personal lines make it unlikely that they could achieve control.

Hence, Rafsanjani's removal from the scene could lead to a period of frequent coups d'etat as one political or military leader after another sought to achieve the dominance necessary. Personal rivalries, as well as institutional and ideological factionalism, would be uncontainable.

A leaderless Iran, drifting into a period of weakness and economic decline, could evolve. Iran's long history has featured many such periods of decline following the departure of a strong leader. Such an Iran, without an accepted leader and without a strong central government, exhausted and devastated by war and revolution, would be an easy target for the extension of influence by Iraq, and possibly the Soviet Union.

## **Economic Prospects**

### **Revenue Needs**

Iran's revenue requirements after the war will be extensive. The most immediate need will be to improve the standard of living of the urban poor who have borne the brunt of the war's economic sacrifices. The urban underclass and the rural poor have also accounted for most of Iran's casualties. Although the revolution has brought some benefits to urban poor, such as an ex-

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tensive food subsidization program and a sense of prestige, they have suffered from rising inflation, inadequate housing, and high unemployment. The poor have generally been quiescent through these hardships, probably out of patriotic and religious feelings. The end of the war, however, may result in greater economic demands by the poor as they seek the postponed fruits of the revolution.

The government will also have to deal with the problem of finding work for tens of thousands of demobilized soldiers. Although these troops will initially rely on their families for support, they have the potential to become—as did many demobilized European soldiers after World War I—a restless and destabilizing force if they are unable to find work. To mitigate the demobilization problem, Iran is reportedly planning to use some of the Revolutionary Guard Corps after the war to work on development projects in rural areas—somewhat akin to the work program of the US Civilian Conservation Corps in the 1930s.

To help alleviate urban unemployment, the government will probably concentrate on improving industrial production. Lower oil earnings forced the government to cut imports from \$18 billion in 1984 to only \$10 billion in the past two years. With military imports running at about \$4 billion annually, the brunt of the cutbacks fell on imports of spare parts and raw materials for civilian industry. This foreign exchange squeeze has caused industrial production to drop to

only 30 percent of capacity and unemployment to rise to 30-35 percent of the labor force.

The government also will have to cope with the resettlement of at least 1 million of its own refugees from the war-torn areas of southwestern Iran. That region, particularly the cities of Abadan and Khorramshahr, suffered extensive damage in the early stage of the war, and reconstruction has been postponed chiefly because of lack of funds. Rebuilding and resettlement will cost tens of billions of dollars.

### Revenue Potential

The war costs Iran annually at least one-third of its \$50 billion budget and roughly \$4 billion in foreign exchange. Undoubtedly, the end of the war will allow Iran to reduce these expenditures and shift more resources to the civilian sector. But the desire to remain a strong regional power probably will necessitate keeping defense spending relatively high. Reluctant to tap its foreign exchange reserves of \$5.5 billion or to borrow abroad, Iran will remain dependent on its oil income to cope with its postwar requirements.

Oil currently accounts for 90 percent of Iran's foreign exchange revenue. Oil earnings fell from \$19 billion in 1983 to only \$7.5 billion in 1986, chiefly owing to the drop in world oil prices. Higher prices and export volumes in 1987 increased oil revenue to about \$11 billion, but lower prices this year are causing oil revenue to drop to an annualized rate of roughly \$9 billion.

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## Reconstruction Debate

The August 30 intervention in the economic policy debate by Ayatollah Khomeini indicates that the regime will look to the Iranian private sector for help in postwar reconstruction. Khomeini stated publicly that the bazaar merchants should be free to import goods and engage in trade during the reconstruction period. This constitutes a defeat for those who

favor greater state intervention in the economy.

Rafsanjani supported this policy a few days later, explaining that Iran needs private sector money to facilitate foreign trade necessary for reconstruction. He and Khamenei also favor the participation of foreign companies and experts.

Iran's extensive trade ties to Japan and West Germany, and recent improvements in relations with France and Britain, suggest that Tehran would not be averse to Western help in its postwar reconstruction efforts. Iran's relatively low oil income and reluctance to incur debt will likely limit Western participation over the short term, however.

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Damaged oil facilities. At this Kermanshah petroleum refinery, which was hit several times during the war, storage tanks, a pipe gallery, and spherical pressure vessels show heavy fire damage from Iraqi airstrikes. Extensive restoration of oil installations, involving foreign expertise, will be a reconstruction priority. Oil accounts for some 90 percent of Iran's foreign exchange revenue. (Photo is SECRET/NOFORN.)

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Iran's current production levels of 2.2-2.5 million barrels per day are within the range of its OPEC quota. Once the war ends, it conceivably could raise this production to its current capacity of 3 million b/d. But some of the increase no doubt would be allocated to cover rising domestic consumption.

In any event, because the world oil market is expected to remain weak over the next few years, higher Iranian output would cause downward pressure on prices. Even though increased production thus would be counterproductive, Iran might feel obliged to move in that direction because of Iraq: Iraq is expected to increase oil production substantially by 1990 when its planned pipeline across Saudi Arabia will add 1.1 million b/d to export capacity. Yet on balance, we expect that Iran, a traditional price "hawk" within OPEC, will probably not increase output significantly as long as the oil market remains soft.

The other option for Iran is to tap international credit markets for loans. Tehran, however, has not pursued this course out of political and religious convictions. Iran has also made it a symbol of revolutionary pride that, unlike Iraq, it is not indebted to the "imperialist West," although it has accumulated \$5.5 billion in short-term trade debt. Even if some Iranian leaders came to favor this option, they probably would not pursue it out of fear of being subjected to charges of selling out to the West. Recently, Iran joined the Islamic Development Bank, establishing access to an Islamic creditor that would be more acceptable than Western lenders. It is highly unlikely, however, that Iran would obtain enough credit from this institution to fund a substantial portion of its postwar needs.

### **Economy To Improve Only Marginally**

Because of the weakness of the world oil market and government prohibitions against foreign borrowing, Iran will have to rely largely on present oil-income levels to improve its battered economy. The end of the war will allow Iran to shift some revenue to the moribund industrial sector and help alleviate the immediate problem of unemployment. Yet large-scale reconstruction programs probably will be stretched out for years, or will have to wait until higher world oil prices result in higher revenue.

## **Military Situation**

### **The Issues Are Not Just Military**

The overarching issue, which very likely has not yet been resolved, is whether Iran intends to return to the war and, if so, when. The analysis below presumes the present leadership does not intend to renew hostilities within the next two or three years. This is based on early indicators of extreme concern that the cease-fire not break down and on the rapidity with which Iran resumed a peacetime posture in its Gulf oil export sector.

Iran's bifurcated military establishment nonetheless faces a long list of serious problems that will not be easily resolved: In many cases they revolve around profound and interrelated political/ideological, doctrinal, and institutional differences. To some extent, Iran's entire foreign policy orientation and intended external alliances are involved.

### **Short Term Versus Long Term**

Iran's military problems can be separated into immediate issues and those that can be resolved in the longer term. The first category includes at least two imperatives: reconstituting a minimal ability to defend against a renewed Iraqi attack and deciding what to do about the innumerable military supply contracts now in force or under negotiation. Given the urgency of these problems—on the one hand, Iran is currently almost defenseless while on the other it must act quickly to minimize the waste of scarce resources involved in buying what it no longer needs—the pressure to act is great. Moreover, "technical" or military prescriptions are fairly clear. Thus, Iranian actions are perhaps somewhat more predictable in the short run than in the longer term.

Issues that will have to be dealt with soon, but with not quite so much urgency, include: rationalizing the maze of military procurement and production channels established during the war; deciding what size military structure to maintain and how to demobilize the rest; deciding what to do with the dual regular military/Revolutionary Guard structure that evolved during the war; determining the organization, doctrine, and armament of the new military establishment; and, perhaps most important, deciding the allocation of resources devoted to rebuilding the military versus



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rebuilding the economy. Answers to these questions involve weighty political, economic, and social issues and are subject to a complex interplay of internal and external forces.

### **New Thinking**

Iraq's spring offensives appear to have sobered the Iranian leadership's views on military affairs. At least two things have become clear: that a divided chain of command (not to mention a divided support structure underneath it) is unworkable, and that it takes a conventional military with a full range of capabilities to deal with a well-armed, aggressive opponent. The fact that Iraq explicitly targeted Iran's regular military in its final series of attacks on the central front and that, once these divisions (and their irreplaceable equipment) were decimated, Iran was defenseless, may have helped drive home this lesson.

Some Iranian leaders may even have recognized, in retrospect, that Iran's IRGC-devised offensive posture of recent years smacked of smoke and mirrors—none of the breakthroughs achieved through enormous expenditures of raw troops were ever exploited successfully. This was due in part to a divided chain of command and a reluctance on the part of the regular military to risk everything on one throw of the dice. But more critical, especially in the later years of the war, was the lack of adequate mobility, firepower, air cover, and logistic support to sustain the momentum of an attack. In reality, Iran's "offensive" strategy depended almost completely on the fact that Baghdad's defensive strategy had conceded the military initiative to Tehran.

### **Pride Goeth Before a Fall**

In any event, the series of defeats undermined the cachet that had attached to the IRGC and, thus, much of its political influence. Compounding this reversal was the close association of the IRGC leadership with the politically unpopular drive to continue the war. Thus, even before the decision to accept Res. 598 and seek a cease-fire, the Iranian leadership was taking steps to unify the command structure and its logistic underpinnings. Even in its early stages, this rationalization process constituted a reversal of the earlier trend toward replacing the regular military services with their Revolutionary Guard counterparts.

Integration has not gone far as yet, but early signs point to growing influence for the regular military establishment. If this trend continues as we expect, it will significantly influence Tehran's decisionmaking on a host of subsidiary issues—especially in the area of organizing and equipping the new military structure.

### **What To Do Now?**

As a priority task, Iran must prepare itself against the eventuality that the peace talks break down and Iraq resumes hostilities at some level. In addition, Iran must cooperate with UNIIMOG in making the cease-fire work. Both of these immediate tasks imply reliance on the regular military, which alone possesses the institutional resources and the command and control capabilities to accomplish them. Iran is working now to reequip and rebuild the regular divisions on the central front, evidently using at least some IRGC resources. The regular military continues its leading role on the central and northern fronts, and appears to have been designated as the hosts for UNIIMOG (in part owing to past negative experiences of UN teams in dealing with the Guards to investigate Iraqi chemical weapons use).

In the short term, Iran will have to make what it has work—this implies a major emphasis on spares and replacement parts for equipment in its inventory, plus matching end items *if they can be had quickly and cheaply*. The on-hand supply of military consumables—ammunition and the like—is probably not well balanced, and Iran will likely follow through on some contracts or deals for this reason alone. Other contracts it may not be able to get out of, stretch out, or otherwise renegotiate.

### **Looking Down the Road**

On the logistic front, it appears to have already been determined that tactical support functions, procurement, and military industry will all be consolidated. So far, the direction seems to be amalgamation under the auspices of the Ministry of Defense entities in each of these areas. Rationalization will increase the impact of whatever resources Iran chooses to make available, by cutting overhead and eliminating duplication. The end of "Operation Staunch" pressures will also make Iranian arms procurement more efficient (better quality, cheaper prices, more reliable suppliers). In fact, Iran may well

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**The Islamic Revolutionary Guards (*Pasdaran*) march in a parade in Tehran. Established by Khomeini in 1979 to prevent a counterrevolution, the Guards are likely to play more of a domestic security role after the war and to be mobilized for domestic reconstruction projects. The Guards are resisting plans to amalgamate them gradually with the regular armed forces. (Photo is OFFICIAL USE ONLY.)**

soon find a crowd of would-be suppliers hat in hand at its doorstep.

Tehran will probably not want to prejudge its long-term procurement effort, and in any event will want to replace much of the battle-worn and increasingly out-of-date equipment it now has. It is very likely, moreover, that Iran will want eventually to divorce itself from much of its US-supplied equipment.

The drive to make Iran self-sufficient in military production, started under the Shah and given renewed impetus by the war, will command the lion's share of available procurement resources and will incline Iran toward suppliers willing to set up turnkey factories, work out coproduction arrangements, or transfer needed technology. Based on these considerations, Tehran will probably not invest large sums in bolster-

ing its current inventory. The key question, then, is what will Iran seek to buy and/or produce, and from whom? An ancillary issue is what will it do with the equipment on hand.

#### **Toward a New Force Structure**

The IRGC will not be disbanded: It is too large, too politically influential, and probably too critical to the long-run survival of the clerical regime. Plus, many at the top levels of the regime no doubt still question the political reliability of the regular military. But it seems likely the IRGC will be pruned back to serve an internal security type of function. Its aspirations to field its own air force and navy will likely fall by the wayside, except perhaps for the light aircraft, utility helicopters, and small boats it now has. A kind of "coast guard" function in the Gulf would not be inconsistent with the

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roles the IRGC was assigned in major exercises during the past several years.

With a dominant regular military, Iran will have a greater tendency to buy Western, technically sophisticated equipment than would have been the case with an IRGC-dominated military structure. Nevertheless, the groundwork has already been laid for a significant postwar arms relationship with China, and it seems likely this will continue. Israeli upgrading of China's newer weaponry will make the relationship more palatable to the regulars than it might have been otherwise. But the Iranians will very likely look to France and Brazil as well. As it did under the Shah, Iran will buy some Soviet equipment—but such purchases will tend to be "stand alone" items, which need not integrate into the overall logistic system and therefore minimize Iranian dependency.

The need for sophisticated, technically qualified air and naval forces was underlined for Tehran over the past year not only by Iraq's ability to strike virtually wherever it pleased but also by the generally routine way in which the US Navy responded to attacks.

**Aircraft.** Iran will likely replace its F-5s and F-4s and unload them on the world market but probably will keep its F-14s: No one but the US operates F-14s, plus they retain a certain cachet, provide a useful "mini-AWACS" function, and are air refuelable. Iran probably will try to keep its P-3s operable, too, because it will not have enough money to replace them any time soon. Parts for the military and civilian transports and air refuelers will be easy to obtain, and they are durable, efficient aircraft.

Iran will want to retain an air-refueling capability and will look for at least one replacement fighter with such a capability—quite likely a French plane. The F-5s probably will be replaced with Chinese planes—especially the newer ones incorporating some Western technology. Iran is already in the market for one or more trainers, and this is an area where "off-brand" producers like the Argentines, Brazilians, or Swiss have a shot.

Iran will want to keep its Cobras and Chinooks flying as long as possible; with cannibalization and an increased flow of spares from abroad this will be possible. Nevertheless, it seems likely Tehran will also

add some type of European attack/utility helicopter to its inventory as a way to phase out the UH-1s and augment its Cobras.

**Air Defense.** It seems unlikely that the IRGC will maintain any role in air defense, so its SA-2s will probably pass into the hands of the Air Force. The Hawks will be maintained as long as possible, but Tehran will seek a replacement. This is an area where the Soviets may be able to make an inroad, because they can offer otherwise unavailable medium- and long-range surface-to-air missiles. The SA-3 and SA-5 are both possibilities. For shorter range air defense, Iran will likely stick with the Oerlikon Skyguard, but it may well seek to add the Aspide missile to the package. Iran has already bought a major British air warning radar system and likely will continue to choose European radars and integration packages as it rebuilds its air defenses.

**Navy and Coastal Defense.** The Navy may have to content itself with refurbishing its ships and their armaments—new engines, new missiles, and the like—for the near term. It is largely European equipped and probably will remain so. The minisubmarine fad is probably irreversible, but control of the program will likely move from the IRGC to the regular Navy. But the Navy never liked the Silkworms and might leave them in the hands of the Guards—as a kind of consolation prize, if nothing else.

**Ground Equipment.** Only China or the Soviet Union can provide tanks and APCs in the numbers Iran will require and at a reasonable price. Iran may well buy some Soviet ground equipment—BMPs, ZSU-23/4s, possibly artillery and engineering equipment—but the Chinese (with Israeli technical assistance) seem the probable source for most of Tehran's armor needs. There may be some scope for Brazilian light armor, multiple rocket launchers, and trucks. The Japanese have already been a major source of utility vehicles and will likely remain so.

Iran will push hard for coproduction on ground equipment of all sorts, including short-range SAMs (the Chinese or North Korean copy of the SA-7 seems a good bet). A major problem will be replacing/augmenting the US self-propelled artillery Iran has depended on so heavily. Soviet-designed SPGs built under license in Eastern Europe could be a candidate.

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Iran might also find long-range Austrian and South African artillery attractive.

**Missiles.** Iran is now manufacturing an assortment of poorly designed field rockets and may try to upgrade this capability. But, faced with a major Iraqi missile threat, Tehran will feel compelled to obtain additional SCUDs (presumably from North Korea) and perhaps an even more potent missile system.

In the long run, the Iranians will want their own ballistic missile manufacturing capability. Control over the missile program will be a major political issue. The IRGC has been in charge and will strongly resist losing its most prestigious program. One solution would be to create a separate "missile corps," made up of IRGC personnel, which would report separately to the Supreme Defense Council. Use of the missiles would be a strategic decision in any event. The possibility of

eventually bringing the new service under the Ministry of Defense would be left open.

**Chemical Weapons.** Iran will of course immediately focus a good deal of attention on its CW defenses. The Soviets and East Europeans, who manufacture an extensive range of decontamination and protective equipment, might secure sales here. But Iran will by no means abandon its efforts to develop an offensive capability to match Iraq's. This effort will likely be consolidated directly under the Ministry of Defense or the Supreme Defense Council—at least initially. Tehran will look to any source it can find for expertise, equipment, and precursors. Syria, Libya, and perhaps North Korea seem especially likely collaborators; however, in recent years would-be CW proliferators around the world have been able to find Western and Third World commercial firms that are all too eager to help them.

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